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INFLATION AND ITS CONTROL

by

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I want to tell you about something which is of great concern to all of us-- what to do about inflation. You have heard a lot about it, but I want to keep you thinking about it, for it might be with us for a long time.²

First, I want to tell you what is wrong about inflation. You will say it means higher cost of living. You will next compare your income with your cost of living. If your cost of living goes up, you will say you must have a higher income to meet the higher cost. For you as an individual this is true, but it is not all. Needing a higher income and getting it are two very different things. But suppose you do get a higher income which will meet the higher cost. You will certainly never get a higher income at the same time you have to meet higher cost, nor even in the same amount. Either your income or your cost will rise first, and you will be either better off or worse off than before. This is unfair. If cost and income for all do not rise together, then some are made better off and others worse off. Some people will receive unfairly more, while others will receive unfairly less. The continual change in prices upward makes it impossible to adjust your individual income and costs fairly, and keep it that way for any great length of time.

I often hear people say, 'My income is higher, but my costs are higher too, and I am no better off.' but this is not accurate. You are, under inflation, always either better off or worse off than without it--but whichever it is it can be very unfair. The way individual increases are distributed is something not intended. You might say it averages out all right, but it does not. Too little income for you does not average very well with too much income for somebody else. One will agree, of course, that it is not possible to give everyone all the income he wants, or all he should have. Obviously, not everything about inflation is bad. It does mean higher income to some even if it means higher costs to others who do not get higher income. But it does not average out all right.

Inflation is bad for business because it makes it impossible to plan well for the future. Business selling prices might go up, but you cannot be sure when or how much. Costs go up too, but you cannot be sure when or how much. Inflation increases the uncertainty of business and thus reduces all income on the average.

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²Editor's note: This is a summary of a talk presented by Dr. Bowers over Station WAGA (Radio-TV) on April 24, 1952.

You might agree with all this as I hope you will. I think most people do. But you ask what can be done about it. What can I do? Each of us can do something. One thing we can do is in the elections next November. We can vote for the candidates who will do something about it. The experts know how to control inflation, but they are powerless without political support. You can insist that to get your vote, the candidate must offer a policy for the control of inflation. You can ask him what he proposes to do and insist on a definite answer. If the people of the United States do not want inflation, they do not have to have it.

Your individual vote cannot elect a president, but this is no excuse for not voting. All our votes do elect a president, and nobody counts for more than one. And so it is with controlling inflation.

But you can do more to control inflation than to vote for the right candidate. We the people, make up public opinion. You can make your opinions known to party officials and officers in both public and private office.

Now I come to the difficult part of it. Inflation is caused not only by excess money in circulation but also by demands for higher income in order to offset inflation of prices which have already risen. It is not easy always to see that all prices are related. Yet one price cannot be changed without having an effect on the others. You need to remember that your income always is a cost to somebody else. If your income goes up, then somebody else's cost will go up and, you have caused inflation. You cannot expect somebody else to keep his selling price down if his costs go up unless you yourself are willing to do the same thing. You can help by a greater hesitation in demanding an increase of income. It is asking a great deal, perhaps entirely too much, to ask one individual to be content without a raise in pay. He can have but little effect on inflation while the cost to him might be disastrous. But for large organized groups this is not so. The rise of income of all the members of a large group will have a great effect on inflation. We should expect organized groups to do more to stop inflation.

Who are the large groups who demand higher income for themselves at the expense of others or at the expense of inflation? Organized labor demands higher wages to offset higher living costs and in so doing increases the cost to produce whatever labor produces. Next, I mean also, is big industry. If wages are raised profits are reduced unless prices are raised. If both are raised, we have inflation and injury to others. Suppose wages are raised and prices of the product are not raised. Is there reason to suppose that profits should not be allowed to be higher also? To deny this is to say that profits are too high now. This would be difficult to prove and I do not know anyone who has done so. But if profits were too high, it must be remembered that they can easily fall for many reasons. Profits can easily become losses because of the uncertainty of profits. It is generally known that profits rise and fall during short periods of time much more than do wages. A worker is guaranteed a wage if he works always. But nobody is ever guaranteed a profit.

Another large group is the farmers. Farm income is kept high by parity prices and other governmental support. Higher farm prices mean higher income for farmers, but they also mean higher costs for all who are not farmers. Thus there are three large groups--labor, industry, and farmers who can exert great influence either to cause more inflation or to check it. There is no use trying to say which group started the process and which one demands higher income because the others have done so. They

all have done it, and they all are still doing it. But I am certain of one thing. Any one of these groups acting alone could take the first step by ceasing to demand higher income at the expense of the others if it would. Each group, in proportion to the size of the total income of all its members, can be an important check on inflation if it would. Moreover, this initial start might be an effective gesture of good will that would invite other groups to refrain from demanding higher incomes at the expense of others. But what is more important is that any loss of income would be no more than temporary hardship because it would soon reduce costs.

This policy of contentment without a raise in pay to meet higher cost cannot be successful if put on an individual basis. It must be done by the various organized groups. Just as you acting alone cannot elect a president, you acting alone cannot stop inflation. But acting together we can elect any president, and acting together we can stop inflation. But control of inflation is not a task for the greedy. It means a willingness to tighten the belt temporarily in consideration of the greater fairness which it will bring later. It is the group which grabs first for the raise that is a cause of inflation. It is the group which gets its raise last that helps to check inflation.

These are things we can do if we want inflation stopped. But let us not forget that the excess spending policies of the government are important. You can play a part in this too. Pick your candidates to high public office who have a will to direct policies of government which will stop inflation.

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